

**Division of Health Planning and Resource Development
April 2006**

**CON REVIEW NH-A-0306-010
TALLAHATCHIE GENERAL HOSPITAL
AND EXTENDED CARE FACILITY
AMENDMENT TO CON #R-0618
(ESTABLISHMENT/CONSTRUCTION
OF A 60-BED NURSING FACILITY)
REVISED CAPITAL EXPENDITURE: \$2,997,983
LOCATION: CHARLESTON, TALLAHATCHIE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Tallahatchie County, Mississippi, owns Tallahatchie General Hospital and Extended Care Facility, a non-profit acute-care and long-term care services organization located in Charleston, Mississippi. Tallahatchie General Hospital and Extended Care Facility receives governance through a five-member Board of Trustees appointed, by statute, by the Tallahatchie Board of Supervisors.

Tallahatchie General Hospital and Extended Care Facility received licensure to operate nine acute care/swing beds and 68 skilled nursing facility beds and certification to participate in the Medicare-Medicaid programs. Tallahatchie General Hospital and Extended Care Facility still has Hill-Burton Program obligations.

The facility's bed capacity, occupancy rate, average length of stay (ALOS), and average daily census (ADC) for FY 2004 are as follows:

Tallahatchie General Hospital and Extended Care Facility FY 2004 Utilization				
Facility	Bed Capacity	Occupancy Rate %	ALOS	ADC
Acute Care	9*	46.60*	4.70*	4.20*
Extended Care Facility	68	92.85	1,447	63.14

* Including swing beds

Source: Tallahatchie General Hospital and Extended Care Facility Hospital Renovation Certificate of Need (CON) Application

B. Project Background

The applicant filed the original application on June 1, 2002, seeking Certificate of Need authority to obligate \$1,671,559 to expand its nursing home bed capacity by 60 beds and to construct a new wing to the hospital to house the additional beds. Following a lengthy hearing during the course of review, the State Health Officer approved CON # R-0618 on July 31, 2003. The construction project as originally contemplated included the purchase of three acres of land contiguous to the hospital, the construction of a new extended care facility wing consisting of 18,740 square feet of space, and renovation of the existing kitchen/dining area, consisting of 2,460 feet of space for a total construction/renovation square footage of 21,200 feet. The proposed architectural plans provided in the original Certificate of Need application anticipated extending the nursing home by adding a new wing to the hospital's existing physical plant that ran parallel to the existing hospital. The Division of Health Facilities Licensure and Certification later determined that proposed architectural plans were not in compliance with standards because a new wing running parallel to an existing hospital must not be within 50 feet of the existing building. Subsequently developed architectural plans provide for the appropriate distance between the existing wing of the hospital and the new extended care wing.

In June 2005, the applicant requested and received approval for a CON Cost Overrun/Amendment due to the following:

- Delay in construction, which caused an increase in construction cost due to inflation.
- The change in architectural plans to relocate the proposed hospital wing.
- Renovation cost due to additional requirements set forth by the United States Department of Agriculture and other governmental authorities since the proposal of the project.

Tallahatchie General was authorized to locate 58 of the CON beds in the newly constructed wing (54 private and 2 semi-private rooms), 2 of the CON beds in the renovated and refurbished existing nursing home, and 38 of the pre-CON Beds in the renovated and refurbished existing nursing home. Tallahatchie General also intends to transfer 30 of their remaining pre-CON beds to another owner. Then, they will use the existing renovated space of the extended care facility to provide housing for 40 residents.

C. Project Description

Tallahatchie General is requesting to further amend its CON so that 30 of the CON beds can be licensed and operated in the existing nursing home until construction of the authorized CON No. R-0618 can be completed. After completion of the construction, 28 of the licensed CON beds will then be moved to the new nursing home wing where the remaining 30 CON beds will also be located. Two of the CON beds will remain in the refurbished and renovated existing nursing home.

- The hospital has acted under the authority granted by CON No. R-0618; actual construction on the new nursing home wing is scheduled to commence during the spring of 2006 and should be completed within 12 months of its commencement. Furthermore, Tallahatchie General has agreed, by letter dated April 21, 2006, that the time frame for completion of CON beds under CON # R-0618 shall not exceed 30 months from date of approval of this amendment.

II. TYPE OF REVIEW REQUIRED

The State Health Officer reviews all projects for amendment and cost overrun in accordance with duly adopted procedures and standards of the Mississippi Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code or 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of this staff analysis. The opportunity to request a hearing expires on May 15, 2006.

III. CONFORMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS

A. State Health Plan (SHP)

The original project was in substantial compliance with the *1999 State Health Plan*, in effect at the time of submission. This amendment project continues to be in substantial compliance with the Plan.

B. General Review (GR) Criteria

The original project was in substantial compliance with the Certificate of Need Review Manual, in effect at the time of submission. This application continues to be in compliance with applicable criteria and standards.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Tallahatchie General Hospital & Expended Care Facility Charleston, Mississippi Capital Expenditure			
	<u>Originally Approved</u>	<u>Cost Overrun/ Amendment approved 11/15/05 Increase/ (Decrease)</u>	<u>Total Capital Expenditure Currently Authorized</u>
Construction (including fixed equipment)	\$1,410,416	\$ 498,309	\$1,908,725
Non-Fixed Equipment	121,310	94,290	215,600
Land	15,000	4,500	19,500
Site Work	11,111	225,865	236,976
Architectural/Engineering Fees	113,722	57,934	171,656
Capitalized Interest	0	145,000	145,000
Contingency Reserve	0	214,570	214,570
Bond Issue Fees	0	85,956	85,956
<u>Total</u>	<u>\$1,671,559</u>	<u>\$1,326,424</u>	<u>\$2,997,983</u>

The applicant submits to date, the hospital has expended \$19,500 to purchase land and approximately \$111,575 for architectural and engineering costs, representing about 4.37% of the construction project. The above increases in capital expenditure were approved by the department on November 17, 2005. No additional increases are required by this amendment.

B. Method of Financing

The applicant is continuing with their original plan to have this proposed project financed through a United States Department of Agriculture (USDA) Rural Development loan, which is taking them more time and effort to secure than originally anticipated.

C. Effect on Operating Cost

The applicant continues to project the following results from operations for the first three years after initiation of the project:

Tallahatchie General Hospital & Extended Care Facility Charleston, Mississippi Three Year Operating Statement			
	Year 1	Year 2	Year 3
Revenue			
Gross Patient Services Revenue	\$10,788,574	\$11,821,966	\$12,480,324
Less Contractual Adjustments	<u>-1,161,376</u>	<u>-1,281,703</u>	<u>-1,367,533</u>
Net Patient Service Revenue	9,627,198	10,540,263	11,112,791
Other Revenue	<u>17,503</u>	<u>18,028</u>	<u>18,570</u>
Net Operating Revenue	<u>\$ 9,644,701</u>	<u>\$10,558,291</u>	<u>\$11,131,361</u>
Expenses			
Salary and Benefits	\$ 5,230,918	\$ 5,778,197	\$ 6,200,451
Supplies and Other Expense	4,043,358	4,184,875	4,331,347
Depreciation	<u>384,487</u>	<u>386,630</u>	<u>388,773</u>
Total Operating Expense	<u>\$9,658,763</u>	<u>\$10,349,702</u>	<u>\$10,920,571</u>
Income (Loss) From Operations	(14,062)	208,589	210,790
Non-Operating Revenue (Losses)			
Interest Income	2,042	1,104	2,167
Interest Expense	(247,284)	(245,108)	(242,839)
Non Capital Grants & Contributions	<u>285,300</u>	<u>293,859</u>	<u>302,675</u>
Total Non-Operating Revenues	<u>\$ 40,058</u>	<u>\$ 49,855</u>	<u>\$ 62,003</u>
Net Income (Loss)	<u>\$ 25,996</u>	<u>\$258,444</u>	<u>\$272,793</u>

Assumptions			
<u>Acute (Including Swing Beds)</u>			
Average Daily Census			
Average Length of Stay	4.72	4.82	4.95
Number of Patient Days	4.74	4.76	4.76
<u>Extended Care</u>	1,723	1,765	1,805
Average Daily Census			
Average Length of Stay	78	87.5	93
Number of Patient Days	1,423	1,460	1,476
	28,470	32,120	33,945
Cost/Patient Day	\$339.26	\$322.22	\$321.71
Charge/Patient Day	\$378.95	\$368.06	\$367.66

D. **Cost to Medicare/Medicaid**

The amendment is not expected to have an effect on Medicaid patients or other payors.

V. **RECOMMENDATION OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of the original application for comment. At that time, Medicaid stated that the cost overrun and amendment to CON # R-0618 was not expected to increase Medicaid expenditures above the projection for the original CON proposal for this facility. Therefore, the Division of Medicaid did not oppose the approval of the original Certificate of Need request, nor does it oppose this amendment.

VI. **CONCLUSIONS AND RECOMMENDATION**

The original application was found to be in substantial compliance with criteria and standards for nursing home care beds found in the (1999) *Mississippi State Health Plan; Certificate of Need Review Manual*; and all adopted rules, procedures, and plans of the Mississippi Department of Health in effect at the time of approval. This request for an amendment/cost overrun is a change in scope, but does not change the overall objective of the project.

The Division of Health Planning and Resource Development recommends approval of the application submitted on behalf of Tallahatchie General Hospital & Extended Care facility for amendment of CON # R-0618, with the following condition (by letter dated April 21, 2006, the applicant has agreed to such condition):

- The time frame for completion of CON beds under CON # R-0618 shall not exceed 30 months from date of approval of this amendment.